



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, November 14, 2012
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:10 a.m. Wednesday, November 14, 2012, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

I. Roll Call of Members

The following members were present at roll call: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director; Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

Mr. Richard A. Licht arrived at 9:16 a.m.

II. Approval of Minutes

On a motion by Gary R. Alger, Esq., and seconded by Frank R. Benell, Jr, it was unanimously

VOTED: To approve the draft minutes of the October 10, 2012 meeting of the Employees' Retirement System of Rhode Island Board.

Mr. Boudreau had reminded the Treasurer and Executive Director of his inquiry from last month regarding the status of the COMPASS Newsletter. He noted that it was not reflected in the minutes.

III. Chairperson's Report

Treasurer Raimondo apprised the Board the assets under management were \$7.4 billion and the 5-year performance was 1.5%, the 3-year was 9% and last month was 1.9%. The Treasurer emphasized that there is a reduction in the risk of the portfolio and the volatility which is measured by standard deviation. The 5-year standard deviation is 12.5%, but the 1-year is 8.5%. The Treasurer reaffirmed that she keeps not only a close eye on the standard deviation but also on the performance.

The Treasurer then apprised the Board that the compliance officer position has been filled and introduced by Mr. Andrew Marcaccio, Esq.,

Treasurer Raimondo then affirmed that the COMPASS Newsletter will be going out the first week of December and it will have reference to the litigation.

IV. Executive Director's Report

Director Karpinski apprised the Board that they are in possession of the Pension Application Report, the Disability Subcommittee Report of November 9, 2012, a Fiscal 2014 Budget Presentation, which will be presented by Director of Finance Zachary Saul, and a report on the ERSRI Disability Pensions, which will be presented by Assistant Director of Member Services Melissa A. Malone, Esq.

Director Karpinski updated the Board on the status of ERSRI's IT System RFP. He noted that the RFP evaluation team has performed five reference checks on the vendors who provided bids and they will also perform site visits with the vendors. He said that the Procurement Subcommittee will meet in November to review the process performed by the Team and discuss the vendor's proposals. The Director said that if the Subcommittee is prepared to recommend a vendor, they may present a full recommendation to the Board in December to consider negotiating a contract.

The Director also noted that there is an RFP for an actuarial audit. He said bidder questions are due on November 15, 2012, and the proposal is due on November 30th.

Director Karpinski apprised the Board regarding the Board training. He said the most preferred date, based on the Board's responses, was March 29, 2013 from 8:30 a.m. to 5 p.m. He reiterated that the training is mandatory. Director Karpinski said he will secure speakers and a facility and provide a confirmation of the date and location once finalized.

Director Karpinski then said that ERSRI's municipal auditors are in the Town of Barrington performing their field work. He said he will provide the Board with periodic updates as they are available.

The Director apprised the Board that ERSRI's staff is in the final stages of testing the programmatic changes related to the enactment of RIRSA. Additionally, he said there are plans to provide customer service training for the staff to enhance their communication skills.

Lastly, Director Karpinski said a meeting has been set up with Roger P. Boudreau for November 21, 2012 to discuss the SRA Plus option (Social Security Option) as information has been obtained that was provided to the actuaries on how to address the benefit and then consider providing the results to the Legislative Subcommittee.

Fiscal Year 2014 Proposed Budget Presentation

Director Karpinski introduced Mr. Zachary Saul, Director of Finance, to provide the Board with a presentation on the fiscal 2014 operating budget for ERSRI. Mr. Saul told the Board that consistent with *Regulation 1 (A) 5 (10) Board Authority and Duties*, the Board must approve a yearly budget. He said the approved Budget is part of the overall Treasury budget submitted to the General Assembly for ultimate approval. He also pointed out that RIGL §36-8-3 defines the budget cap under which ERSRI may operate which is \$12,245,872 for FY2014.

Mr. Saul then highlighted some primary budget changes for the Board. He noted that ERSRI is currently seeking an upgrade to the ANCHOR system which accounts for increased cost. He said there would be an increase cost in third party software and hardware to complete the project. He also noted the increase in legal fees, which is related to the pending lawsuits from the recently enacted pension reforms.

Mr. Saul pointed out that the System increased the legal fees budgeted to be sure there are adequate funds available.

He then noted the increase in actuarial fees. Mr. Saul said that under RIGL §36-10-9 ERSRI's actuarial studies provide the General Assembly with the authority to request studies at the expense of the trust, he pointed out the uncertainty in potential requests and thus budgets accordingly. Also, he noted increased costs relating to the new GASB No. 67 and No. 68 accounting standards that will require additional efforts by ERSRI's actuary, Gabriel, Roeder, Smith and Company (GRS). Director Karpinski noted that during negotiation with GRS, both GASB No. 67 and No. 68 were in draft form. Consequently, they were not considered in the original contract and would be negotiated separately.

Mr. Maguire then asked if either of the rules required any additional actuarial costs in the way of contributions. Mr. Saul said no and noted that they involve a different way of reporting. Director Karpinski said the key is the separation of the accounting from the funding.

Mr. Saul then discussed the increase in the *Personnel Costs* between FY 2013 and FY 2014 and noted two additional staff members for the Accounting Department. He said one FTE was for compliance with the new GASB pronouncements and the other was a senior accounting level position to focus on both ERSRI's internal and external audits.

Mr. Saul discussed the occupancy costs, specifically noting the elimination of the rental expense from ERSRI's former location at 40 Fountain Street, Providence. Mr. Saul said there are potential capital improvements to the space at 50 Service Avenue that may be made in FY2014 of \$50,000 to \$60,000.

Mr. Saul reminded the Board that the FY2014 budget is a combined budget for both the Retirement Administration and the Investment Division.

Mr. Boyce asked about the Legal Services budget and queried if ERSRI will have a separate attorney in addition to what the Treasurer has regarding the current pension litigation. Treasurer Raimondo said the Attorney General is representing the Treasurer and the Governor. The firm of Adler Pollock and Sheehan is representing the System. Mr. Licht noted that the Attorney General's Office (Attorney General Kilmartin) is representing both the Treasurer and the Governor in the second case (RIRSA litigation); in the first case (2009 litigation), Adler, Pollock and Sheehan is representing the Treasurer, the Governor, and the System. Treasurer Raimondo noted that Attorney General Lynch made a determination that he and his counselors were conflicted since they were all members of the System and thus chose to hire Adler, Pollock and Sheehan to defend the Governor and the Treasurer. Attorney General Kilmartin has taken a different position and is representing the Treasurer and Governor. Treasurer Raimondo then provided an update on litigation costs at the request of Mr. Boyce and said \$102,000 has been expended from the inception of the 2009 litigation through November 5, 2012. Mr. Licht noted that the bill was paid half by the State and half by the System in 2009 for the defense of the Treasurer and Governor.

There being no further discussion, on a motion by John P. Maguire and seconded by Gary R. Alger, Esq., it was unanimously

VOTED: To approve the Fiscal 2014 Expense Budget of the Employees' Retirement System of Rhode Island as presented.

V. Update on Disability Audit

The Treasurer discussed and provided a synopsis to the Board of the recommendations by ERSRI's internal auditor Sullivan & Company:

- Establishment of a hotline – completed and to date a total of 122 calls received.
- The filling of the vacant position of compliance officer - Andrew S. Marcaccio, Esquire, has been appointed and will be counsel for regulatory affairs (both disability and pension compliance).
- Recommended hire of an independent investigator. The Treasurer said ERSRI is working on an RFP, which will be submitted to the Procurement Subcommittee.
- Recommended more educational sessions at the Board meetings and with the suggestion by Mr. Maguire to compare with other states on their handling of disability. The Treasurer said the Board will have a presentation in the next couple of months.

Mr. Maguire wanted clarification from Treasurer Raimondo on her definition of the position of the compliance officer as both disability and pension compliance. The Treasurer explained that all pension compliance including disability compliance fall into his duties. Melissa Malone, Esq., Assistant Director of Member Services also noted that in addition to the duties noted by the Treasurer, there are compliance efforts for the Teacher Survivor Benefits (TSB) as well as post-retirement employment compliance.

The Treasurer then introduced Ms. Malone to provide a historical review of disability pensions granted to ERSRI members. Ms. Malone began her presentation by providing the Board with a historical snapshot, from 1961 to present, of members who are actively collecting a disability pension; she also provided a chart that identified the membership of the members who are actively collecting a disability pension.

Ms. Malone then provided information on the 10 most frequent employers where individuals retire with a disability benefit. She showed the active members as of 6/30/11 and active members per retiree. She then provided information showing the 10 top municipal employers in the MERS plan where disability benefits are provided.

Ms. Malone next provided a chart that compared the current members receiving a disability with pending members. Ms. Malone noted that there was a slight increase in the teachers group and the municipal (general--civilians).

Next, Ms. Malone provided the Board with an analysis of the age at retirement of members receiving disability benefits to those with pending applications. She then provided the Board a comparison of pending applications of psychological versus physical disabilities. Ms. Malone provided information identifying pending disability applications based on psychological medical conditions and a breakdown of what positions those members were employed in.

Ms. Malone concluded her presentation by discussing the current administrative challenges. She noted that there are a high number of applications and reduced number of physicians participating resulting in delay of Independent Medical Examination (IME) assignment to members. Additionally, she said the merging of physicians' groups

has resulted in a reduced number of possible in-state physicians to complete IMEs. She also noted that there has been a significant increase in the need for psychologists to provide IME reports related to psychological conditions and noted the difficulty of determining more subjective psychological medical conditions.

Treasurer Raimondo thanked Ms. Malone for her presentation and said she would periodically provide the Board updates on the disability review.

VI. Approval of the October Pensions as Presented by ERSRI

On a motion by Gary R. Alger, Esq., and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the October pensions as presented.

VII. Legal Counsel Report

Attorney Robinson apprised the Board that there was a new filing by *Ann Capineri vs. Employees' Retirement System of Rhode Island* in Superior Court. She was a Cumberland Teacher seeking to purchase the unworked portion of a job share arrangement. Attorney Robinson said he will keep the Board apprised of the progress in Superior Court.

Mr. Maguire queried about the *Rivera vs. ERSRI* matter and noted that the Supreme Court has heard the argument and asked Attorney Robinson what the time line may be. Attorney Robinson said the Chief Judge of the Supreme Court indicated at the conclusion of oral argument, that the expected time frame of a decision would be 30 to 90 days.

VIII. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on November 9, 2012:

Name	Membership Group	Type	Action
1. Joseph Theroux	Municipal	Accidental	Postpone
2. Eugene Bedard	State	Accidental	Postpone
3. Philip DeBeaulieu	State	Accidental	Postpone
4. Thomas McKenna	Municipal	Accidental	Approve
5. Stephen Limoges, Sr.	State	Accidental	Approve 50%
6. Denise Valenti	State	Accidental	Deny
7. Scott Costigan	Municipal	Accidental	Approve
8. Madeline Viveiros	State	Accidental	Deny
9. Tracy Griffith	Municipal	Ordinary	Approve
10. Brian Ferguson	State	Ordinary	Approve

11. Denise Walker	Teacher	Ordinary	Approve
12. Carl Mueller	Teacher	Ordinary	Deny

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, November 9, 2012 on item 11.

John P. Maguire recused himself from the vote on number 11.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, November 5, 2012 on items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 12.

IX. New Business

Mr. Maguire asked if there would be training for Board members on the 401(a) defined contribution (DC) plan. Director Karpinski said that there will be training on the DC plan and he will be coordinating with TIAA-CREF to provide such training

Mr. Boudreau requested that Attorney Dingley report out on the pending lawsuits. Attorney Dingley noted that other than what has been published in the newspaper, there has been a motion to dismiss filed by the State and is still pending and currently slated for a December 7, 2012 hearing before the Judge. He also noted that the State has filed a petition in court to ask that Judge Sara Taft-Carter recuse herself. Mr. Boyce asked that the Board be provided with a monthly update on the current pension litigation. The Treasurer agreed.

X. Adjournment

There being no other business to come before the Board, on a motion by Gary R. Alger, Esq. and seconded by Roger P. Boudreau the meeting adjourned at 10:20 a.m.

Respectfully submitted,

Frank J. Karpinski
Executive Director